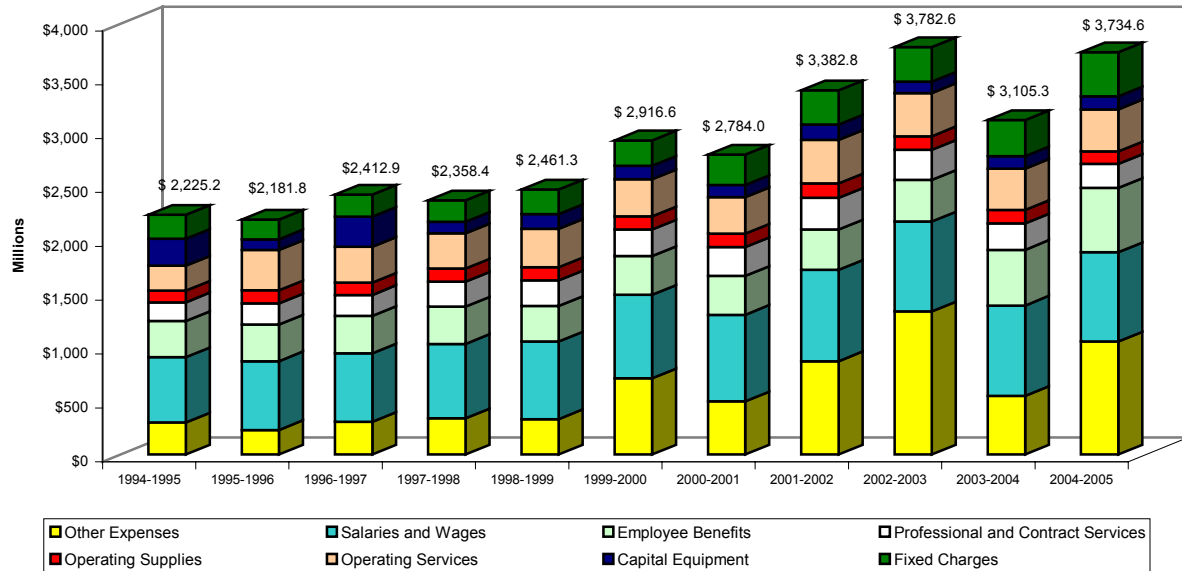


CITY OF DETROIT APPROPRIATIONS FOR FISCAL YEAR 1994-1995 THROUGH FISCAL YEAR 2004-2005

The following schedule and chart show the total budgeted appropriations for the eleven fiscal years from 1994-1995 through 2004-2005. The amounts noted on the chart indicate the total budgeted appropriation amounts for each fiscal year in millions. The information for fiscal years 1994-1995 through 2003-2004 is from the adopted budget for that fiscal year, and the information for fiscal year 2004-2005 is from the Mayor's Proposed Budget.



In Millions

Fiscal Year	Salaries and Wages	Employee Benefits	Professional and Contract Services	Operating Supplies	Operating Services	Capital Equipment	Fixed Charges	Other Expenses	Total
1994-1995	\$ 604.7	\$ 336.0	\$ 174.6	\$ 108.5	\$ 231.4	\$ 249.7	\$ 222.3	\$ 298.0	\$ 2,225.2
1995-1996	638.5	340.0	196.8	121.8	373.0	100.4	183.3	228.0	2,181.8
1996-1997	635.8	346.3	195.3	115.4	332.1	279.0	204.7	304.3	2,412.9
1997-1998	689.9	345.9	232.1	121.5	327.9	105.7	198.2	337.2	2,358.4
1998-1999	719.8	329.7	238.1	121.5	357.7	136.4	229.5	328.6	2,461.3
1999-2000	773.8	360.3	246.9	122.1	344.9	123.5	236.6	708.5	2,916.6
2000-2001	804.0	361.4	268.4	123.5	339.1	113.7	280.7	493.2	2,784.0
2001-2002	848.1	374.8	293.9	133.9	402.5	143.7	319.3	866.6	3,382.8
2002-2003	835.8	386.9	278.1	126.8	400.7	106.5	320.0	1,327.8	3,782.6
2003-2004	840.2	516.7	244.8	124.8	382.5	116.8	336.0	543.5	3,105.3
2004-2005	828.1	596.4	223.9	116.4	390.2	121.1	408.4	1,050.1	3,734.6

SALARIES AND WAGES

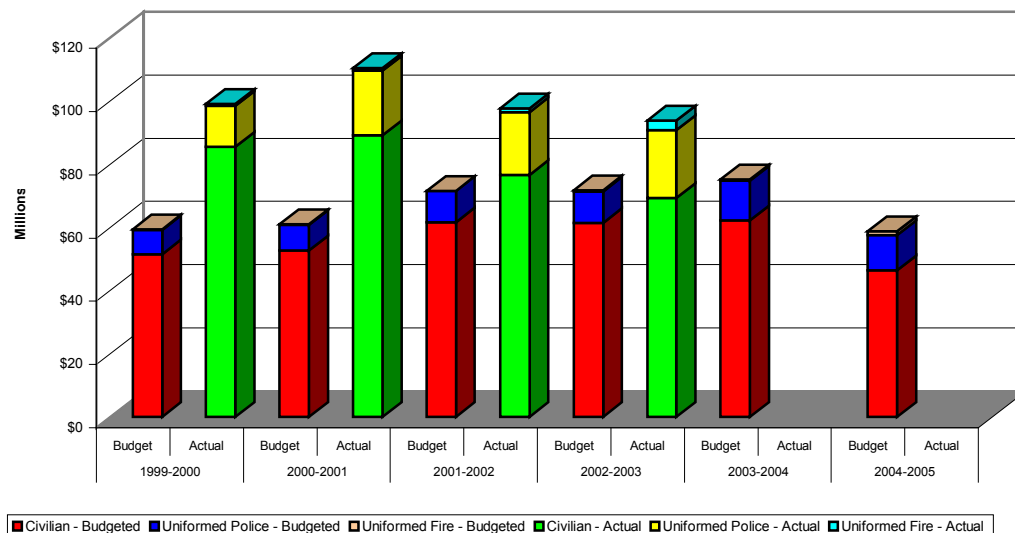
The 2004-2005 Mayor's Proposed Budget includes \$828.1 million for salaries and wages, a decrease of \$12.1 million (1.4%) from the 2003-2004 Budget. The \$12.1 million decrease is the net effect of pay rate increases and adjustments, and a reduction in the number of budgeted positions. The following comparative schedule shows the amount of salaries and wages included in the 2004-2005 Mayor's Proposed Budget and the 2003-2004 Budget:

	In Millions		
	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase (Decrease)
Civilians	\$ 530.1	\$ 552.8	\$ (22.7)
Uniform Police	214.8	209.7	5.1
Uniform Fire	83.2	77.7	5.5
Total Salaries and Wages	<u>\$ 828.1</u>	<u>\$ 840.2</u>	<u>\$ (12.1)</u>

Pay Raises and Other Salary Adjustments

The 2004-2005 Mayor's Proposed Budget includes a net increase of \$20.0 million in salaries and wages due to pay rate increases of 5.0% for uniform employees, and a general citywide 2.0% increase for civilian employees. Actual salary and wage increases are contingent upon the continued ratification of the various collective bargaining agreements currently under negotiation. Salaries and Wages also includes \$59.0 million in citywide overtime, a decrease of 21.9% from the 2003-2004 Budget. For the fiscal year 2000-2001, actual overtime was \$110.3 million. However, overtime has decreased slightly for fiscal years 2001-2002 and 2002-2003 to \$97.5 million and \$93.7 million, respectively.

The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 1999-2000 to 2002-2003, budgeted overtime for 2003-2004 and the 2004-2005 Mayor's Proposed Budget.



Reduction in Budgeted Positions

There are 997 fewer budgeted positions in the 2004-2005 Mayor's Proposed Budget, as compared to the 2003-2004 Budget. The Budget Department was unable to quantify the cost savings associated with the decrease in budgeted positions.

Number of Budgeted Positions

The following schedule shows the total number of positions in the 2004-2005 Mayor's Proposed Budget and the 2003-2004 Budget. Budgeted and actual positions for each agency are shown in the chart accompanying this section.

	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase (Decrease)
Civilian Positions			
excluding Detroit Housing Commission	13,003	13,641	(638)
Detroit Housing Commission	0	357	(357)
Total Civilian Positions	13,003	13,998	(995)
Uniform Police	4,271	4,273	(2)
Uniform Fire	1,431	1,431	0
Total Uniform Positions	5,702	5,704	(2)
Total Number of Budgeted Positions	18,705	19,702	(997)

The decrease in the number of budgeted positions for civilians reflects 377 layoffs, the net elimination of 263 budgeted positions, and the exclusion of 357 Detroit Housing Commission's positions.

Layoffs

The Mayor plans a layoff of 377 employees, including 112 employees in the Transportation Department and 73 employees in the Department of Public Works in fiscal year 2004-2005.

Net Elimination of Vacant Positions

The salary and wage decrease reflects a net elimination of 263 vacant positions in various City agencies. Altogether 352 vacant positions are eliminated, while 89 positions are added. The net elimination of budgeted positions includes 42 positions in the Police Department (40 civilian and 2 uniform), 41 positions in the 36th District Court, 28 positions in the Law Department, 27 positions in the Department of Health & Wellness Promotion, 26 positions in both the Finance and Information Technology Departments, 12 positions at the Zoo, 10 positions in the Building & Safety Engineering Department, 9 positions at the Department of Public Works, 8 positions at the Transportation Department, and 60 positions in other City Departments.

Detroit Housing Commission (DHC)

The 357 positions in the DHC are eliminated in the 2004-2005 Mayor's Proposed Budget. In June 2003, the Michigan Supreme Court affirmed the decision of the Court of Appeals, thereby severing the employment relationship between the City and the DHC by operation of law. The separation from the City includes all aspects of the DHC including the capacity to hire, fire, transfer, and assign employees, as well as set job descriptions, compensation levels, and performance criteria.

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

Page 1 of 2

AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget		Actual as of 4/2004	
	Number	% of Total	Number	% of Total	Number	% of Total
EXECUTIVE AGENCIES:						
11 Arts	-	0.00%	-	0.00%	-	0.00%
12 Budget	31	0.17	31	0.16	30	0.17
14 Civic Center	80	0.43	103	0.52	91	0.50
15 Communications and Creative Services	21	0.11	19	0.10	17	0.09
16 Consumer Affairs (A)	-	0.00	25	0.13	18	0.10
17 Department of Culture, Arts & Tourism	12	0.06	15	0.08	14	0.08
19 Department of Public Works	1,257	6.72	1,339	6.80	1,307	7.25
21 Detroit Workforce Development Department	95	0.51	95	0.48	83	0.46
22 Environmental Affairs	26	0.14	34	0.17	31	0.17
23 Finance	491	2.62	533	2.71	513	2.85
24 Fire	1,900	10.16	1,916	9.72	1,758	9.75
25 Department of Health and Wellness Promotion	605	3.23	656	3.33	579	3.21
26 Historical	31	0.17	38	0.19	36	0.20
28 Human Resources	377	2.02	392	1.99	341	1.89
29 Human Rights	23	0.12	26	0.13	26	0.14
30 Department of Human Services	162	0.87	171	0.87	152	0.84
31 Information Technology Services	121	0.65	154	0.78	126	0.70
32 Law	185	0.99	227	1.15	200	1.11
33 Mayor's Office	98	0.52	101	0.51	99	0.55
36 Planning and Development	265	1.42	279	1.42	261	1.45
37 Police	4,883	26.11	4,925	25.00	4,369	24.23
38 Public Lighting	298	1.59	298	1.51	273	1.51
39 Recreation	687	3.67	717	3.64	1,127	6.25
40 Senior Citizens	12	0.06	11	0.06	9	0.05
44 Zoological Institute	171	0.91	186	0.94	166	0.92
45 Department of Administrative Hearings(B)	6	0.03	-	0.00	-	0.00
46 Detroit Office of Homeland Security(B)	6	0.03	-	0.00	-	0.00
TOTAL EXECUTIVE AGENCIES	11,843	63.31%	12,291	62.38%	11,626	64.48%
LEGISLATIVE AGENCIES:						
50 Auditor General	23	0.12%	30	0.15%	19	0.11%
51 Zoning	14	0.07	16	0.08	15	0.08
52 City Council	104	0.56	109	0.55	107	0.59
53 Ombudsperson	11	0.06	11	0.06	11	0.06
70 City Clerk	29	0.16	33	0.17	30	0.17
71 Department of Elections	99	0.53	101	0.51	75	0.42
TOTAL LEGISLATIVE AGENCIES	280	1.50%	300	1.52%	257	1.43%
JUDICIAL AGENCY:						
60 36th District Court	450	2.41%	508	2.58%	470	2.61%
OTHER AGENCY:						
35 Non-Departmental	52	0.28%	43	0.22%	37	0.21%
TOTAL GENERAL CITY AGENCIES	12,625	67.50%	13,142	66.70%	12,390	68.72%

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

Page 2 of 2

AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget		Actual as of 4/2004	
	Number	% of Total	Number	% of Total	Number	% of Total
ENTERPRISE AGENCIES:						
(TAX SUPPORTED)						
10 Airport	23	0.12%	23	0.12%	22	0.12%
13 Buildings and Safety Engineering	331	1.77	338	1.72	312	1.73
20 Transportation	1,718	9.18	1,838	9.33	1,760	9.76
72 Library	485	2.59	476	2.42	477	2.65
TOTAL TAX SUPPORTED ENTERPRISE AGENCIES	2,557	13.67%	2,675	13.58%	2,571	14.26%
TOTAL TAX SUPPORTED AGENCIES	15,182	81.17%	15,817	80.28%	14,961	82.98%
ENTERPRISE AGENCIES:						
(NONTAX SUPPORTED)						
27 Housing (C)	-	0.00%	357	1.81%	170	0.94%
34 Municipal Parking	124	0.66	130	0.66	121	0.67
41 D.W.S.D. - Water Supply	2,097	11.21	2,097	10.64	1,718	9.53
42 D.W.S.D. - Sewage Disposal	1,302	6.96	1,301	6.60	1,059	5.87
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	3,523	18.83%	3,885	19.72%	3,068	17.02%
GRAND TOTAL - ALL AGENCIES	18,705	100.00%	19,702	100.00%	18,029	100.00%

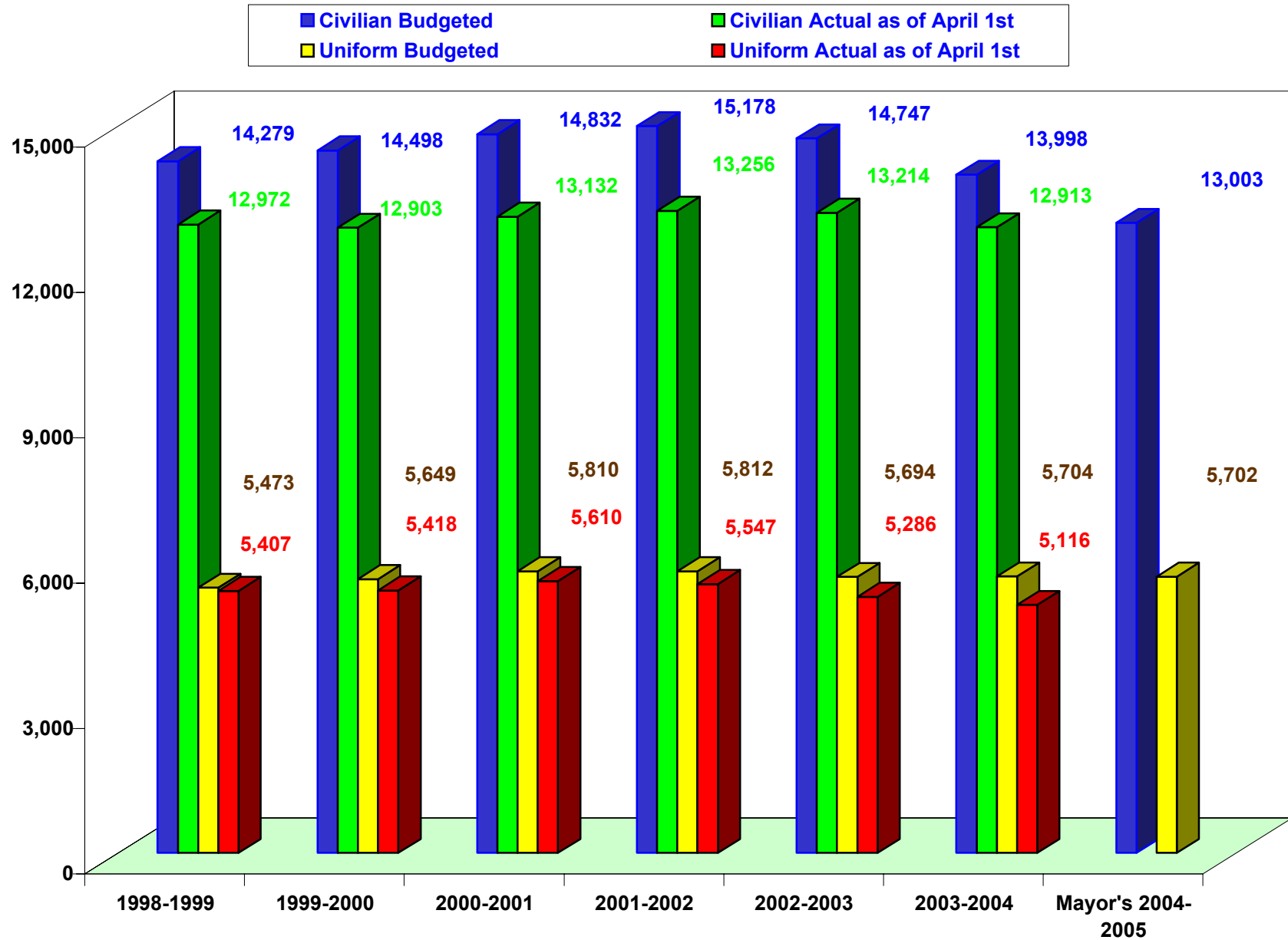
(A) The Consumer Affairs Department is eliminated in the 2004-2005 Mayor's Proposed Budget, and the functions are transferred to other Agencies.

(B) Office of Homeland Security is established as a separate department and a Department of Administrative Hearings is created in the 2004-2005 Mayor's Proposed Budget.

(C) The Housing Department is not included in the 2004-2005 Mayor's Proposed Budget, since the Mayor considers it an independent entity.

COMPARISON OF BUDGETED TO ACTUAL POSITIONS

(All Funds)



PENSIONS

The City's budgeted appropriations for pension costs are normally based on contribution rates computed by actuaries for the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). The contribution rates are applied to the appropriate budgeted salary amounts to determine the budgeted amount of the City's contributions for employees' pensions. A level percent-of-payroll contribution requires that the City's contribution rate provide for the employer normal cost amount plus amortization of the unfunded actuarial accrued liability (the difference between the actuarial accrued liability and current assets). Employer normal cost is defined as the value of retirement benefits likely to be paid for employee services being rendered in the current year.

The following schedule is a comparison of the 2004-2005 Mayor's Proposed Budget to the 2003-2004 Budget for appropriations that cover the costs of employees' pensions.

<u>In Millions</u>			
<u>Employee Category</u>	<u>2004-2005 Mayor's Proposed Budget</u>	<u>2003-2004 Budget</u>	<u>Increase (Decrease)</u>
GRS Employees	\$ 115.7	\$ 109.0	\$ 6.7
PFRS Employees	<u>108.4</u>	<u>62.6</u>	<u>45.8</u>
Total	<u>\$ 224.1</u>	<u>\$ 171.6</u>	<u>\$ 52.5</u>

The 2004-2005 Mayor's Proposed Budget includes GRS pension costs based on separate contribution rates, determined by the actuaries, for various City funds, such as the General Fund and each Enterprise Fund. Due to the actuarial rates not being available until April 2004, the rates used to compute the pension contribution for the Mayor's 2004-2005 budget are lower than the rates recommended by the actuary. An additional \$2.5 million, reflecting the higher actuarial rates, has been included in Adjustments and Undistributed Costs (Non-Departmental) but is not included in the \$224.1 million total pension costs.

The 65th Annual Actuarial Valuation, as of June 30, 2003, is not yet available. Limited information provided by the actuary indicates that the GRS is in an under-funded actuarial condition (72% funded ratio) according to the principle of level percent-of-payroll financing. The under-funded status of the system requires that the City's contributions be increased to reach a fully-funded status. Of the 22.72% Computed Employer Contribution Rate for fiscal year 2004-2005, 13.90% is due to amortization of the unfunded actuarial liability.

The 62nd Annual Actuarial Valuation, as of June 30, 2003, is not yet available. Limited information provided by the actuary indicates the PFRS is under funded by \$516 million. The employer normal contribution rate is 24.82% for fiscal year 2004-2005. An additional 19.07% contribution is necessary to amortize the unfunded actuarial liability, which includes the effect of market losses.

The \$45.8 million PFRS pension contribution increase in 2004-2005 is due to the decrease in market value of PFRS assets in 2002-2003, poor returns for the past three years, and the low level of City contributions in prior years based on an over-funded status. The 2004-2005 Mayor's Proposed Budget for the PFRS pension appropriation is based on a normal cost

contribution rate of 39.25% of the base salary of Policemen and Fire Fighters, which differs from the percentage recommended by the actuary of 43.89%, which incorporates the under-funded status as of June 30, 2003.

The PFRS had excess funding for 1998-1999 through 2001-2002 as detailed below. The PFRS went from an over funded status of 103% at June 30, 2002 to an under funded status of 86% as of June 30, 2003. The GRS has been under-funded for over twenty years.

In Millions			
Fiscal Year	GRS Excess/(Under) Funding Amount	PFRS Excess/(Under) Funding Amount	Total Excess/(Under) Funding Amount
1998-1999	\$ (143.8)	\$ 449.7	\$ 305.9
1999-2000	(174.6)	622.1	447.5
2000-2001	(267.5)	436.8	169.3
2001-2002	(515.4)	111.7	(403.7)
2002-2003	(733.0)	(516.0)	(1,249.0)

The following schedule shows the actual annual City contributions to the GRS and to the PFRS for the past nine years through June 30, 2003.

Schedule of Employer Contributions			
In Millions			
Fiscal Year	GRS	PFRS	Total Contribution
1994-1995	\$ 36.5	\$ 57.3	\$ 93.8
1995-1996	42.5	55.0	97.5
1996-1997	54.7	54.5	109.2
1997-1998	52.7	48.1	100.8
1998-1999	55.6	15.7	71.3
1999-2000	66.7	20.0	86.7
2000-2001	68.1	14.4	82.5
2001-2002	67.8	8.4	76.2
2002-2003	72.9	66.8	139.7

As shown by the preceding schedule, the annual contributions made by the City to the GRS have increased from \$36.5 million in 1994-1995 to \$72.9 million in 2002-2003. This \$36.4 million increase is due to an increase in covered payroll from 1995 to 2002; increases in the contribution rates resulting, in part, from improvements in retirement benefits; and substantial market losses in recent years.

The preceding schedule also shows that the annual contributions made by the City to the PFRS decreased each year from fiscal 1994-1995 through fiscal 2001-2002 due to the over-funded status of the PFRS fund during those years. The increased contribution in fiscal 2002-2003 is primarily due to the market losses experienced and the negotiated agreement in fiscal 2000-2001 by which a portion of the excess funding of the System was distributed among the City, active employees, and retirees. Of the \$66.8 million required contribution for fiscal 2002-2003, \$35.0 million plus interest had not been transferred to the PFRS as of April 8, 2004. Wayne

County Circuit Court has ordered the City to pay the \$35.4 million plus interest. The City is appealing the decision.

Our analysis indicates that the \$224.1 million budgeted for pensions in the Mayor's Proposed Budget for 2004-2005 is not sufficient to fund the City's projected required pension contributions. Using the contribution rates provided by the actuary for both the GRS and the PFRS, an additional \$21.9 million or a total of \$246.0 will be necessary to fund the City's pension contributions in fiscal 2004-2005. The primary components of the \$21.9 million are:

- \$13.1 million - the amount necessary to reflect the pension contribution using the rate established by the actuary (43.89%) for Police and Fire rather than the rate used to develop the budget (39.25%).
- \$6.3 million - the amount necessary to reflect the contribution to the GRS using the rate established by the actuary (10.09%) for the Sewerage Department rather than the rate used to develop the budget (0.81%).
- \$2.5 million - the amount necessary to reflect the contributions to the GRS using the rates established by the actuary for the remaining departments and agencies rather than the rates used to develop the budget.

While \$2.5 million has been included in Adjustments and Undistributed Costs (Non-Departmental), it is not included in the \$224.1 million total pension costs. The Budget Department has indicated that the Sewerage Department will be required to fund its additional pension costs (\$6.3 million) from within their proposed budget.

Items Affecting Future Funding Levels

Two factors that may result in the City being required to increase contributions in the coming years are the implementation of the GRS Defined Contribution Plan and the shifting composition of the membership of the two systems.

The Defined Contribution Plan (DC Plan), when implemented, will permit GRS members to convert from the existing pension plan (the Defined Benefit Plan) to the new plan. Over time, it is anticipated that the DC Plan will provide substantial savings to the City. In the short term, however, the DC Plan could result in substantial costs to the City as a result of lowering vesting requirements to four years. The cost to the City has not yet been determined. It is anticipated that the DC Plan will be implemented on a retroactive basis that would result in some current and former employees who are not vested becoming vested. The 2002 actuarial study does not include any assumption regarding the impact of the DC Plan on the existing plan. The Mayor's Proposed Budget does not include any provision for the eventual implementation of the DC Plan.

As demonstrated in the following tables, both pension systems have experienced a shift in the composition of their membership. Although the composition of the GRS has remained stable during the past twenty years, thirty years ago, the number of active employees paying into the GRS system was about twice the number of retired members who were receiving benefits. During the period 1984 through 1992, active members represented, on average, 51.8 percent of the membership. The change in the PFRS membership has been more dramatic. Thirty years ago, the ratio of active employees to retired members was approximately three to two. By 2002, active members who were paying into the system represented only 39.7 percent of the total membership. The average number of active members for the period 1984 through 2002 represented 44.3 percent of the total membership. Layoffs or reduction on the City's workforce

through attrition and other measures could further erode the balance between members contributing to the systems and members receiving benefits from the system. Membership composition is significant because, as the number of active employees paying into the system declines relative to the number of retired members receiving benefits, the City may be forced to further increase contributions to the pension funds to maintain pension benefits.

General Retirement System

<u>Year</u>	<u>Membership</u>			<u>Percentage</u>	
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	<u>Active</u>	<u>Retired</u>
1984	13,172	11,643	24,815	53.1	46.9
1989	13,554	11,734	25,288	53.6	46.4
1994	11,382	11,649	23,031	49.4	50.6
1999	11,987	11,537	23,524	51.0	49.0
2002	12,639	11,363	24,002	52.7	47.3

Policemen and Firemen Retirement System

<u>Year</u>	<u>Membership</u>			<u>Percentage</u>	
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	<u>Active</u>	<u>Retired</u>
1984	5,209	5,986	11,195	46.5	53.5
1989	6,282	6,496	12,778	49.2	50.8
1994	5,162	7,169	12,331	41.9	58.1
1999	5,329	7,883	13,212	40.3	59.7
2002	5,382	8,179	13,561	39.7	60.3

Pension Obligation Bonds

The Mayor proposed in his 2004-2005 Budget that the City issue \$80 million in Pension Obligation Bonds (POBs) to satisfy all the unfunded liabilities associated with the two pension funds. However, the total POB issue being contemplated is \$1.2 billion, the combined unfunded amounts for both pension systems. The issuance of POBs, sufficient to satisfy all the unfunded liabilities, is expected to produce savings of \$24 - \$26 million for the City, annually for the next 10 to 12 years. The \$35.4 million that the City has been ordered by the Wayne County Circuit Court to pay to the PFRS (plus interest accruing at an annual rate of 7.8% or \$1.8 million as of April 8, 2004) will be funded from the Fiscal Stabilization Bonds, not from the POBs.

The City plans to use an innovative method of financing which will combine the purpose of POBs with the methodology of Certificates of Participation. This would result in the liability remaining an off-balance sheet item and not being included in the computation of the legal debt margin. POBs are generally backed either by the benefiting municipality's general obligation pledge or by a pledge of annual appropriations. POBs are not secured by the assets of the pension funds.

As the sponsor of the pension plans, the City has the option of eliminating the unfunded liability through annual contributions over the next fourteen to fifteen years, or through a one-time contribution. The use of POBs to provide for these contributions does raise the issue of intergenerational equity by pushing current costs to a later generation of taxpayers if the annual savings experienced as a result of issuing the bonds is not sufficient to provide for full

repayment of the bond principal and interest. Standard & Poor's (S&P) recommends that pension funding should be faced directly and addressed through implementing appropriate actuarial procedures rather than resorting to gimmicks and delays that can adversely affect credit ratings.

Cost savings can result from the use of POBs when the debt service requirements of the bond issue are lower than the original amortized payment schedule for the unfunded actuarial accrued liability. This means that the return on the funds contributed to the pension fund for investment must be significantly greater than the interest that must be paid on the bonds. Conversely, POBs can result in the issuer paying higher contributions to cover new actuarial losses and bond interest costs if the returns are lower than anticipated or lower than the rate being paid on the bonds. To be successful, the GRS and PFRS would have to earn 8 percent or more each year during the life of the bonds.

According to S&P, at June 30, 2000, most public pension funds were substantially fully funded and pension plan sponsors were enjoying reduced contribution rates. After fiscal year 2000, the investment returns for pension funds fell sharply, largely due to the decline in the stock market. These declines in investment returns contributed to large actuarial losses for pension funds, even after the softening effects of actuarial smoothing. Despite market improvements in fiscal year 2003, returns were still not high enough to meet the actuarial investment return hurdle (7.9% for the GRS and 7.8% for the PFRS). Funding ratios, therefore, continued to decline.

Joe Mysak¹, a columnist for *Bloomberg News*, has written, "Most of the municipalities that sold POBs to achieve actuarial nirvana are worse off than they were." He further commented, "POBs are gimmicks, a short-term fix to a long-term problem." He quoted Sage Advisory Services, a money management company in Austin Texas, as characterizing the use of bond money to pay for future pension liabilities as "a risky arbitrage transaction." He further quoted Fitch Investors Service as indicating that, "Using pension obligation bond proceeds to pay current and subsequent year pension contributions is considered by Fitch to be a type of deficit financing – the use of borrowing funds to pay for an annually recurring expense."

The issuance of the pension obligation bonds violates the Debt Management Plan outlined in the Mayor's Proposed Budget for 2004-2005 which states that debt will be issued only for capital purposes, and not to finance current operations or working capital.

¹ The municipal bond columnist for the *Bloomberg News* and author of several books on municipal bonds including *Handbook for Muni Bond Issuers*

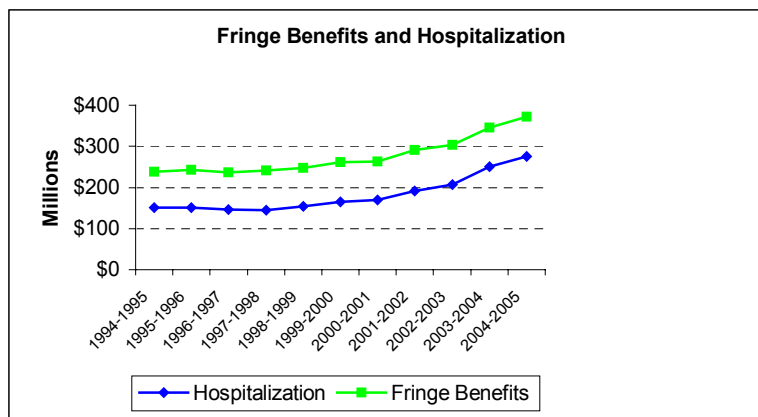
FRINGE BENEFITS (EXCLUDING PENSIONS)

The 2004-2005 Mayor's Proposed Budget includes \$596.4 million for employee benefits including \$224.1 million for employee pensions and \$372.3 million for fringe benefits. Employee benefits have increased \$79.7 million or 15.4% from the 2003-2004 budgeted amount of \$516.7 million. This is due mainly to increased pension and hospitalization costs for retired City employees. The pension increase is discussed in our pension analysis, and other fringe benefits are explained below.

The City provides both nonnegotiable (those regulated by either Federal or State law) and negotiable fringe benefits to both civilian and uniform employees, as well as to retired employees.

The 2004-2005 Mayor's Proposed Budget includes \$372.3 million for fringe benefits (excluding pensions), which is a \$27.2 million increase from the \$345.1 million included in the 2003-2004 Budget. This increase is primarily caused by a \$25.7 million increase in hospitalization appropriations. Fringe benefit appropriations have increased steadily from the 1999-2000 Budget even though positions have been cut in the Mayor's 2004-2005 Proposed Budget and the 2003-2004 Budget. Fringe benefits have increased 56.2% since fiscal year 1994-1995, with 41.3% of that increase occurring in the past five years. Shown below is a trend analysis of total fringe benefits (excluding pensions) appropriations for fiscal years 1994-1995 to 2004-2005.

Fiscal Year	Fringe Benefits (In Millions)	% Increase (Decrease) From Prior Year
1994-1995	\$ 238.3	
1995-1996	243.1	2.0 %
1996-1997	236.7	(2.6)
1997-1998	241.8	2.2
1998-1999	247.8	2.5
1999-2000	261.1	5.4
2000-2001	263.5	0.9
2001-2002	290.8	10.3
2002-2003	303.1	4.2
2003-2004	345.1	13.9
2004-2005	372.3	7.9



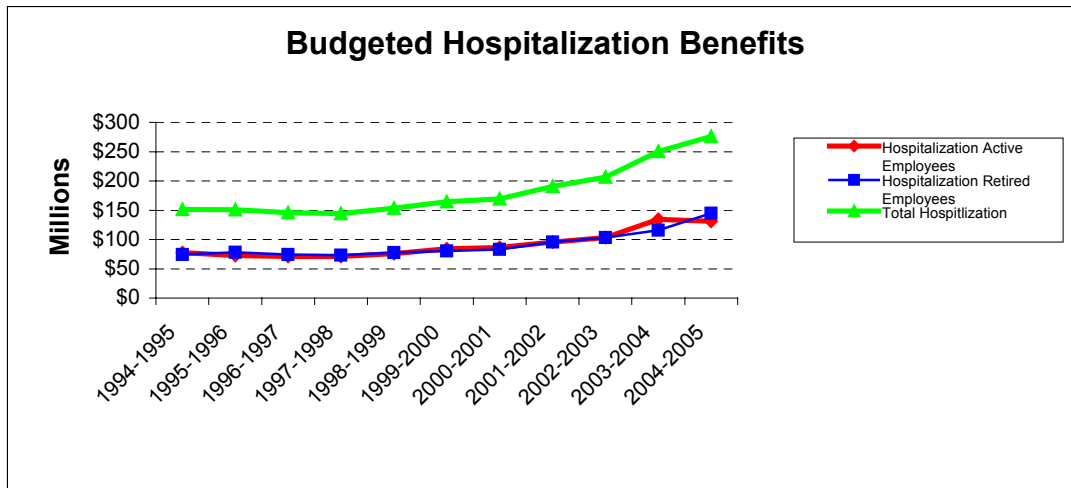
The following paragraphs and Schedule A provide the results of our analysis of major employee fringe benefits, other than pensions.

Hospitalization

The budgeted expenditures for hospitalization increased 10.3% from fiscal year 2003-2004. A total of \$276.1 million (\$131.1 million for active employees and \$145.0 million for retired employees) is budgeted for fiscal year 2004-2005 compared to \$250.4 million (\$134.5 million for active employees and \$115.9 million for retired employees) in the 2003-2004 Budget.

Hospitalization appropriations for retired City employees increased \$29.1 million or 25.1% and were the major reason for increased hospitalization appropriations. The hospitalization appropriations for retired City employees is growing larger than the active employees because of growing health care costs for City of Detroit retirees from both the General Retirement System and the Policemen and Firemen Retirement System, and the reduction in the number of active employees. Hospitalization costs for active employees declined \$3.4 million in the Mayor's 2004-2005 Budget. Hospitalization appropriations have increased steadily from the 1999-2000 Budget due to rising health care costs, and is the major reason for the annual increases in total fringe benefits costs. Hospitalization appropriations have increased 82.2% since fiscal year 1994-1995, with 63.1% of that increase occurring in the past five years. Listed below is a trend analysis of hospitalization appropriations for fiscal year 1994-1995 to 2004-2005.

Fiscal Year	In Millions			% Increase/ (Decrease) From Prior Year
	Hospitalization Active Employees	Hospitalization Retired Employees	Total Hospitalization	
1994-1995	\$ 77.3	\$ 74.2	\$ 151.5	
1995-1996	72.5	78.4	150.9	(0.4)%
1996-1997	71.1	74.5	145.6	(3.5)
1997-1998	71.3	73.1	144.4	(0.8)
1998-1999	76.2	77.5	153.7	6.4
1999-2000	84.2	80.4	164.6	7.1
2000-2001	86.2	83.1	169.3	2.9
2001-2002	95.5	95.4	190.9	12.8
2002-2003	103.0	103.4	206.4	8.1
2003-2004	134.5	115.9	250.4	21.3
2004-2005	131.1	145.0	276.1	10.3



Social Security (FICA)

The 2004-2005 Mayor's Proposed Budget includes a decrease of \$2.4 million for social security taxes, which total \$43.9 million compared to \$46.3 million in the 2003-2004 Budget. This decrease results from the decrease in the number of budgeted positions.

Workers' Compensation

The 2004-2005 Mayor's Proposed Budget of \$21.4 million includes a decrease of \$1.3 million for workers compensation or 5.8% from the \$22.7 million in the 2003-2004 Budget.

Unemployment Compensation

The 2004-2005 Mayor's Proposed Budget includes \$3.3 million for unemployment compensation as compared to the \$1.1 million included in the 2003-2004 Budget. This is a 206.5% increase due to the expected increase in contributions for expected layoffs.

General City Employees

General City (General Fund and Grant Fund) employees', both civilian and uniform (Police and Fire), fringe benefits were analyzed separately from the total because they have a significant impact on the City's expenditures. Enterprise agencies were not included in this analysis. Schedule B compares the Mayor's 2004-2005 proposed fringe benefits for both civilian and uniform employees to the 2003-2004 adopted budget fringe benefits. Schedule C shows the same comparison on a per budgeted employee basis.

Fringe Benefits for General City employees account for \$284.5 million of the total \$372.3 million budgeted for fringe benefits (excluding pensions). Of this \$284.5 million, \$128.6 million is for General City civilian fringe benefits and \$155.9 million is for Police and Fire employee fringe benefits. This is a \$16.5 million increase over the \$268.0 million budgeted for fiscal year 2003-2004.

The \$128.6 million for General City civilian fringe benefits is stable when compared to the \$128.6 million budgeted for fiscal year 2003-2004. An increase of \$2.0 million for unemployment and \$7.7 million for hospitalization appropriations for retirees is offset by a decrease of \$7.5 million in hospitalization for active employees. Although hospitalization costs are rising, offsetting savings are expected because of the reduction of positions in fiscal year 2004-2005.

The \$16.5 million increase for Police and Fire employees' fringe benefits over the \$139.4 million in fiscal year 2003-2004 is due primarily to a \$17.3 million increase in hospitalization appropriations for retirees and a \$1.0 million decrease in longevity. The legally required fringe benefits did not change for Police and Fire employees because there is no reduction in positions.

Employee benefits, which comprise a significant portion of the City's overall costs, are detailed in the following three schedules, which compare the amounts appropriated in the 2004-2005 Mayor's Proposed Budget to the 2003-2004 Budget:

Schedule A

EMPLOYEE BENEFITS COST SCHEDULE
FRINGE BENEFITS AND PENSIONS
CIVILIAN AND UNIFORM EMPLOYEES AND ASSOCIATED RETIREES
OF THE CITY OF DETROIT

BENEFIT CATEGORY	Budgeted Employee Benefits			
	2004-2005 Mayor's Proposed	2003-2004 Budget	Increase/ (Decrease)	% Increase/ (% Decrease)
Pensions	\$ 224,136,456	\$ 171,644,281	\$ 52,492,175	30.58 %
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 43,927,859	\$ 46,258,509	\$ (2,330,650)	(5.04) %
Unemployment Compensation	3,307,544	1,079,102	2,228,442	206.51
Workers' Compensation	21,390,000	22,703,072	(1,313,072)	(5.78)
Total Legally Required Fringe Benefits	\$ 68,625,403	\$ 70,040,683	\$ (1,415,280)	(2.02) %
<u>Negotiable Fringe Benefits:</u>				
Hospitalization:				
For Employees	\$ 131,136,760	\$ 134,465,679	\$ (3,328,919)	(2.48) %
For Retirees	144,949,944	115,904,405	29,045,539	25.06
Dental:				
For Employees	5,251,795	4,984,857	266,938	5.35
For Retirees	5,874,275	5,773,959	100,316	1.74
Eye Care:				
For Employees	2,092,832	2,508,314	(415,482)	(16.56)
For Retirees	1,335,542	1,428,667	(93,125)	(6.52)
Disability Medical	1,524,640	1,526,918	(2,278)	(0.15)
Longevity	9,004,123	10,045,921	(1,041,798)	(10.37)
Group Life Insurance	1,703,118	1,476,731	226,387	15.33
Retirement Sick Leave	7,238,860	6,828,415	410,445	6.01
Income Protection	2,264,158	2,116,362	147,796	6.98
Miscellaneous	4,030,055	3,946,454	83,601	2.12
Fringe Clearing Account	(12,748,541)	(15,944,722)	3,196,181	(20.05)
Total Negotiable Fringe Benefits	\$ 303,657,561	\$ 275,061,960	\$ 28,595,601	10.40 %
Total Fringe Benefit Costs Excluding Pensions	\$ 372,282,964	\$ 345,102,643	\$ 27,180,321	7.88 %
Total Fringes and Pensions	\$ 596,419,420	\$ 516,746,924	\$ 79,672,496	15.42 %

BUDGETED FRINGE BENEFIT COST SCHEDULE
(Excluding Pensions)
CIVILIAN AND UNIFORM EMPLOYEES AND ASSOCIATED RETIREES
OF THE GENERAL AND GRANT FUNDS

BENEFIT CATEGORY	Budgeted Fringe Benefit Amounts For Civilian Employees (A)		Budgeted Fringe Benefit Amounts For Uniform Employees	
	2004-2005	2003-2004	2004-2005	2003-2004
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 23,493,579	\$ 24,792,435	\$ 1,464,636	\$ 1,409,437
Unemployment Compensation	2,975,066	1,005,830	-	-
Workers' Compensation	10,289,267	11,225,993	-	-
Total Legally Required Fringe Benefits	<u>\$ 36,757,912</u>	<u>\$ 37,024,258</u>	<u>\$ 1,464,636</u>	<u>\$ 1,409,437</u>
<u>Negotiable Fringe Benefits:</u>				
Hospitalization:				
For Employees	\$ 44,055,285	\$ 51,534,067	\$ 48,294,841	\$ 48,526,365
For Retirees	36,798,685	29,113,220	85,459,166	68,208,648
Dental:				
For Employees	1,972,998	1,777,947	1,758,350	1,657,872
For Retirees	1,744,787	1,656,038	3,101,483	3,114,306
Eye Care:				
For Employees	501,855	483,127	522,285	739,873
For Retirees	512,106	660,382	1,174,695	1,224,137
Disability Medical	-	-	1,524,640	1,526,918
Longevity	2,196,285	2,205,691	5,163,151	6,168,771
Group Life Insurance	834,079	556,584	668,320	702,987
Retirement Sick Leave	1,972,852	2,372,028	4,199,319	3,591,490
Income Protection (B)	1,442,963	1,310,549		
Miscellaneous	(195,677)	(85,123)	2,548,263	2,553,356
Total Negotiable Fringe Benefits	<u>\$ 91,836,218</u>	<u>\$ 91,584,510</u>	<u>\$ 154,414,513</u>	<u>\$ 138,014,723</u>
Total Fringe Benefit Costs Excluding Pensions	<u><u>\$ 128,594,130</u></u>	<u><u>\$ 128,608,768</u></u>	<u><u>\$ 155,879,149</u></u>	<u><u>\$ 139,424,160</u></u>

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

Schedule C

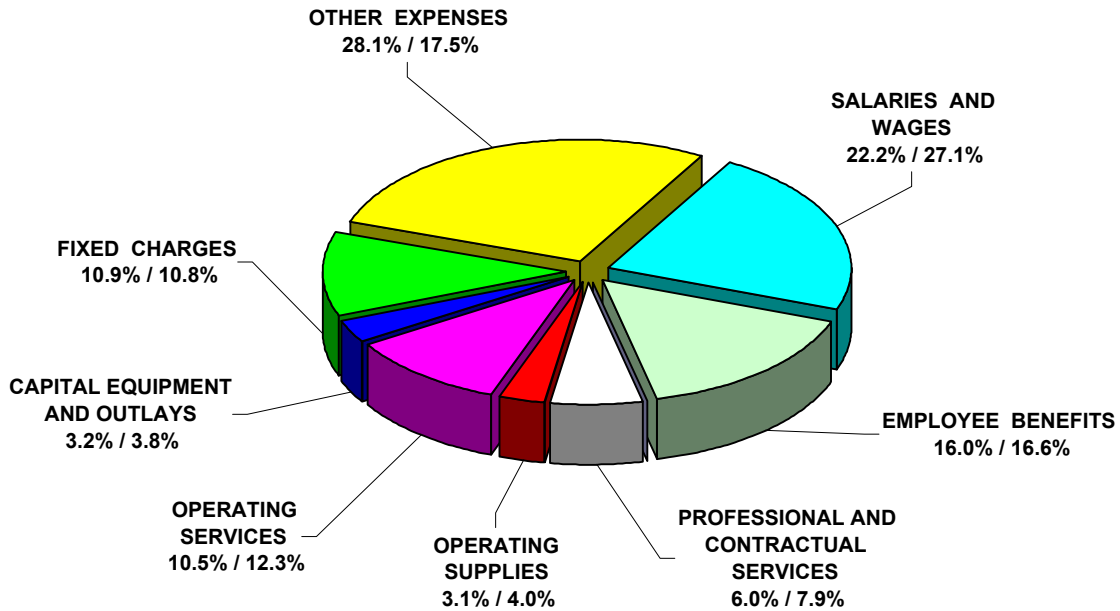
**BUDGETED AMOUNT PER BUDGETED POSITION
OF THE GENERAL AND GRANT FUNDS
(Excluding Pensions)**

BENEFIT CATEGORY	Civilian (A)		Police-Uniform		Fire-Uniform	
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>
Nonnegotiable Fringe Benefits: (Legally Required)						
Social Security (FICA)	\$ 3,344.76	\$ 3,287.25	\$ 225.98	\$ 220.09	\$ 349.03	\$ 327.74
Unemployment Compensation	423.56	133.36	-	-	-	-
Workers' Compensation	1,464.87	1,488.46	-	-	-	-
Total Legally Required Fringe Benefits	<u>\$ 5,233.19</u>	<u>\$ 4,909.07</u>	<u>\$ 225.98</u>	<u>\$ 220.09</u>	<u>\$ 349.03</u>	<u>\$ 327.74</u>
<u>Negotiable Fringe Benefits:</u>						
Hospitalization:						
For Employees	\$ 6,272.11	\$ 6,832.94	\$ 8,399.20	\$ 8,248.73	\$ 8,680.53	\$ 9,279.92
For Retirees	5,238.99	3,860.15	15,247.29	12,349.04	14,212.44	10,790.49
Dental:						
For Employees	280.89	235.74	327.73	282.26	250.60	315.71
For Retirees	248.40	219.58	560.58	550.37	494.24	532.90
Eye Care:						
For Employees	71.45	64.06	84.63	125.29	112.40	142.93
For Retirees	72.91	87.56	207.21	214.90	202.44	213.73
Disability Medical	-	-	264.34	261.14	276.49	287.25
Longevity	312.68	292.45	835.59	995.98	1,114.15	1,336.80
Group Life Insurance	118.75	73.80	128.64	129.20	83.08	105.47
Retirement Sick Leave	280.87	314.51	702.53	561.66	837.75	832.65
Income Protection (B)	205.43	173.77	-	-	-	-
Miscellaneous	(27.86)	(11.29)	17.19	15.62	1,729.46	1,737.68
Total Negotiable Fringe Benefits	<u>\$ 13,074.62</u>	<u>\$ 12,143.27</u>	<u>\$ 26,774.93</u>	<u>\$ 23,734.19</u>	<u>\$ 27,993.58</u>	<u>\$ 25,575.53</u>
Total Fringe Benefit Costs Per Budgeted Position (Excluding Pensions)	<u>\$ 18,307.81</u>	<u>\$ 17,052.34</u>	<u>\$ 27,000.91</u>	<u>\$ 23,954.28</u>	<u>\$ 28,342.61</u>	<u>\$ 25,903.27</u>

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

APPROPRIATIONS BY MAJOR OBJECT
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET



MAJOR OBJECT	2004-2005 MAYOR'S BUDGET	2003-2004 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
SALARIES AND WAGES	\$ 828,119,091	\$ 840,185,417	\$ (12,066,326)	(1.44) %
EMPLOYEE BENEFITS	596,419,420	516,746,927	79,672,493	15.42
PROFESSIONAL AND CONTRACTUAL SERVICES	223,868,388	244,801,555	(20,933,167)	(8.55)
OPERATING SUPPLIES	116,405,086	124,755,587	(8,350,501)	(6.69)
OPERATING SERVICES	390,184,832	382,451,228	7,733,604	2.02
CAPITAL EQUIPMENT	121,063,417	116,799,050	4,264,367	3.65
FIXED CHARGES	408,391,157	335,962,928	72,428,229	21.56
OTHER EXPENSES	1,050,103,591	543,611,927	506,491,664	93.17
TOTAL	\$ 3,734,554,982	\$ 3,105,314,619	\$ 629,240,363	20.26 %

APPROPRIATIONS BY AGENCY
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET

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AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget	
	Amount	Percent of Total	Amount	Percent of Total
GENERAL CITY AGENCIES:				
EXECUTIVE AGENCIES:				
11 Arts	\$ 642,975	0.02%	\$ 642,975	0.02%
12 Budget	3,355,110	0.09	3,312,519	0.11
14 Civic Center	27,067,976	0.72	27,498,906	0.89
15 Communications and Creative Services	2,584,568	0.07	2,164,131	0.07
16 Consumer Affairs (A)	-	0.00	1,638,216	0.05
17 Department of Culture, Arts and Tourism(B)	2,134,462	0.06	1,933,848	0.06
19 Department of Public Works	204,480,548	5.48	201,904,945	6.50
21 Detroit Workforce Development Dept. (C)	43,586,185	1.17	82,979,071	2.67
22 Environmental Affairs	2,278,559	0.06	2,710,571	0.09
23 Finance	46,229,773	1.24	47,211,334	1.52
24 Fire	206,934,197	5.54	182,678,782	5.88
25 Dept. of Health and Wellness Promotion(D)	97,625,489	2.61	101,036,863	3.25
26 Historical	4,905,865	0.13	3,406,391	0.11
28 Human Resources	31,894,667	0.85	29,799,976	0.96
29 Human Rights	2,193,726	0.06	2,267,722	0.07
30 Human Services	74,453,890	1.99	73,886,614	2.38
31 Information Technology Services	29,238,454	0.78	35,304,945	1.14
32 Law	25,269,165	0.68	28,116,087	0.91
33 Mayor's Office	10,510,110	0.28	10,670,474	0.34
36 Planning and Development	65,187,661	1.75	72,836,422	2.35
37 Police	487,536,735	13.05	431,544,646	13.90
38 Public Lighting	71,463,435	1.91	72,533,321	2.34
39 Recreation	53,139,906	1.42	60,183,105	1.94
40 Senior Citizens	1,606,034	0.04	2,328,872	0.07
44 Zoological Institute	17,149,738	0.46	16,324,132	0.53
45 Department of Administrative Hearings(E)	2,321,167	0.06	-	0.00
46 Detroit Office of Homeland Security(E)	730,254	0.02	-	0.00
TOTAL EXECUTIVE AGENCIES	\$ 1,514,520,649	40.55%	\$ 1,494,914,868	48.14%
LEGISLATIVE AGENCIES:				
50 Auditor General	\$ 3,128,542	0.08%	\$ 3,294,648	0.11%
51 Zoning	911,016	0.02	973,276	0.03
52 City Council	14,087,555	0.38	18,293,759	0.59
53 Ombudsperson	1,455,586	0.04	1,547,288	0.05
70 City Clerk	4,028,193	0.11	4,196,957	0.14
71 Department of Elections	11,108,832	0.30	8,895,023	0.29
TOTAL LEGISLATIVE AGENCIES	\$ 34,719,724	0.93%	\$ 37,200,951	1.20%

**APPROPRIATIONS BY AGENCY
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

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AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget	
	Amount	Percent of Total	Amount	Percent of Total
JUDICIAL AGENCY:				
60 36th District Court	\$ 49,354,273	1.32%	\$ 47,716,997	1.54%
OTHER AGENCIES:				
35 Non-Departmental	\$ 328,883,396	8.81%	\$ 297,478,093	9.58%
TOTAL GENERAL AGENCIES	\$ 1,927,478,042	51.61%	\$ 1,877,310,909	60.45%
18 Debt Service Fund	\$ 70,599,475	1.89%	\$ 67,125,114	2.16%
ENTERPRISE FUNDS:				
(TAX SUPPORTED)				
10 Airport	\$ 5,663,466	0.15%	\$ 4,379,837	0.14%
13 Buildings and Safety Engineering	37,097,900	0.99	34,540,856	1.11
20 Transportation	171,169,345	4.58	174,312,014	5.61
72 Library	43,189,441	1.16	38,140,465	1.23
TOTAL TAX SUPPORTED ENTERPRISE FUNDS	\$ 257,120,152	6.88%	\$ 251,373,172	8.09%
TOTAL TAX SUPPORTED FUNDS	\$ 2,255,197,669	60.39%	\$ 2,195,809,195	70.71%
ENTERPRISE AGENCIES:				
(NONTAX SUPPORTED)				
27 Housing (F)	\$ -	0.00%	\$ 86,227,617	2.78%
34 Municipal Parking	48,225,913	1.29	49,463,808	1.59
41 D.W.S.D. - Water Supply	700,721,800	18.76	289,595,200	9.33
42 D.W.S.D. - Sewage Disposal	730,409,600	19.56	484,218,799	15.59
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	\$ 1,479,357,313	39.61%	\$ 909,505,424	29.29%
GRAND TOTAL - ALL AGENCIES	\$ 3,734,554,982	100.00%	\$ 3,105,314,619	100.00%

- (A) The Consumer Affairs Department is eliminated in 2004-2005 Mayor's Proposed Budget, and the functions are transferred to other Agencies.
- (B) Previously was the Cultural Affairs Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (C) Previously was the Employment and Training Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (D) Previously was the Health Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (E) The Detroit Office of Homeland Security and the Department of Administrative Hearings are new agencies for 2004-2005.
- (F) The Housing Department is not included in the 2004-2005 Mayor's Proposed Budget, since the Mayor considers it an independent entity.

SUMMARY OF EMPLOYEE TURNOVER SAVINGS
2004-2005 MAYOR'S PROPOSED BUDGET

Employee turnover savings is the dollar estimate of the savings in appropriations resulting from positions included in the budget that may not require funding during some period of the fiscal year.

The Budget Department's estimate of employee turnover savings represents appropriation amounts not included in the 2004-2005 Mayor's Proposed Budget, even though the positions to which the savings relate remain in the budget. For example, an unfilled budgeted position, resulting from the retirement of an employee, generates turnover savings until the position is filled.

The total estimated employee turnover savings projected for fiscal year 2004-2005 is \$24.8 million. This estimate represents a \$2.4 million, or 8.75% decrease from the 2003-2004 Budget of \$27.2 million. Salaries and wages, fringe benefits, and most employer pension contributions are the costs included in the calculation, while overtime and longevity are excluded.

The table below lists the estimated employee turnover savings by agency.

Agency Number	AGENCY	2004-2005 Mayor's Proposed Budget
14	Civic Center	\$ 667,711
15	Communication and Creative Services	29,608
23	Finance	288,896
24	Fire Department	2,018,269
25	Department of Health and Wellness Promotion	968,799
31	Information Technology Services	129,603
37	Police	19,625,544
38	Public Lighting Department	1,079,950
	Total Estimated Employee Turnover Savings	<u>\$ 24,808,380</u>

The following schedule provides our estimate of the number of position equivalents represented by the Budget Department's estimate of turnover savings.

Approximate Position Equivalents Included in the Budget But Not Funded Due to Estimated Turnover Savings in 2004-2005	
Civilian Positions	62
Uniform Positions-Fire	12
Uniform Positions-Police	<u>214</u>
Total	<u>288</u>

Our analysis indicates that there are 18,705 budgeted positions included in the 2004-2005 Mayor's Proposed Budget but funding for only 18,417 positions (18,705 - 288), as compared to the 2003-2004 Budget, in which there was funding for 19,309 positions (19,702 - 393).

In addition, we note there are 997 fewer budgeted positions (18,705 versus 19,702) in the 2004-2005 Mayor's Proposed Budget, as compared to the 2003-2004 Budget.